

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM
MEETING OF THE BOARD OF DIRECTORS
February 22, 2012**

MINUTES

Present:

Treasurer Young Boozer, Chair
Ms. Karen Gandy
Mr. Marc Green
General Paul Hankins, Vice Chair
Leigh Grogan for Chancellor Freida Hill
Dr. William Meehan
Mr. Jimmy Stubbs
Mr. Mark Sullivan

Absent:

Dr. Greg Fitch
Ms. Gwen Appling
Dr. Richard Huckaby
Dr. Marquita Davis
Sen. Roger Bedford
Rep. Craig Ford
Ms. Patti Lambert

Others present include:

Ms. Glenda Allred, Deputy Treasurer
Ms. Daria Story, Assistant Treasurer
Ms. Brenda Emfinger, College Savings Programs Director
Mr. Chad Bryan, Capell & Howard
Mr. Barry Bryant, Dahab Associates

Agenda Item 1. and 2.

Pursuant to written and public notice, the quarterly meeting of the Board of Directors of the PACT Program was held in the Board Room of the RSA Headquarters on February 22, 2012. The meeting was called to order by Chairman Young Boozer at 1:05 p.m. Roll was taken with a quorum present.

Agenda Item 3.

Chairman Boozer presented the minutes of the November 30, 2011 board meeting. A motion was made by General Hankins, seconded by Dr. Meehan for approval as presented. The motion was unanimously approved.

Agenda Item 4. (A.)

Chairman Boozer asked Ms. Emfinger for a program report. Ms. Emfinger provided information on program statistics, cancellations, trust fund assets, and the budget. She informed that Board that Spring 2012 invoices were being paid at the rates prescribed in Act 2010-725 and that thus far, 319 colleges had been paid over \$29 million.

Agenda Item 4. (B.)

Chairman Boozer called on Barry Bryant from Dahab to give the quarterly investment report. Mr. Bryant stated that performance for the previous year was very good for an all bond portfolio, returning 4.9%, which placed the portfolio in the top percentile of similar portfolios. He explained that the past year was a "risk off" year with bonds doing well but that the previous quarter was "risk on".

For the quarter, the portfolio returned .8% as compared to the index of .7%. The portfolios that were inherited by Longfellow and MacKayShields had negative returns. In the intermediate

fixed portfolio, Longfellow had a return of .9% and MacKayShields, 1.1% against a benchmark of .8%. In the short term portfolios, Longfellow had a return of .5% and MacKayShields .8% against the index of .3%.

Agenda Item 4.B. (1.)

Mr. Bryant presented recommended changes to the Investment Policy for the Board's consideration. He provided a summary of the changes, as well as a marked copy of the policy. He explained that the changes were primarily related to simplifying the benchmarks, changing universes, and modifying the asset allocation language. After explanation and discussion, a motion was made by Dr. Meehan and seconded by General Hankins for approval of the recommended changes to the Investment Policy. The motion was unanimously passed.

Mr. Bryant handed out a copy of the January 31, 2012 report on manager performance. He noted that the portfolio had a return of 1.3% for the month.

Agenda Item 4. (C.)

Chairman Boozer provided a copy of the Quarterly Actuarial Valuation, performed by Mr. Dan Sherman. Mr. Boozer stated that as of 1/31/12, the fund was 103.9% funded with a surplus of \$32.4 million, assuming the litigation settlement is upheld by the Alabama Supreme Court. He informed the Board that Mr. Sherman had been asked to provide an analysis of the funded status if the settlement was not upheld. Using a scenario where benefits would be paid according to Act 2010-725, the program would be only 60.5% funded. A further analysis was conducted to assume that without the settlement account holders with beneficiaries who would matriculate after 2018 would cancel their contracts. That scenario would result in a funded status of 71.9%.

Chairman Boozer then provided a copy of a letter from Mr. Sherman which evaluated the ability of PACT to pay the 2.5% increase as specified in Act 2010-725. The letter stated that if the settlement was reversed, the funded status of the program would fall below the required level to grant an increase. As a result, no increase was allowed for 2011.

Agenda Item 4. (D.)

Chairman Boozer called on Chad Bryan for the legal report. Mr. Bryan reported that two appeals were remaining with the Alabama Supreme Court to challenge the class action settlement. He further reported that the attempt to compel repayment of attorneys' fees and supplemental payment of fall invoices had been denied by the Supreme Court. He stated that there was no additional information to report on the Supreme Court ruling concerning the settlement.

Mr. Bryan then informed the Board that the attorney in the Perdue lawsuit had sent a letter requesting the PACT Board to pursue a claim against Callan. He suggested that this letter be discussed during an Executive Session of the Board.

Agenda Item 5.

Chairman Boozer presented a Resolution for the Board's consideration concerning the recent contract with Sherman Actuarial Services. He explained that the resolution affirmed the RFP Committee's action concerning a contract for actuarial services. A motion was then made by Dr. Meehan for approval of the Resolution. Mr. Sullivan seconded with unanimous approval.

Agenda Item 6.

Chairman Boozer called the Board's attention to informational items which included a copy of the Annual Report submitted to the Legislature as well as an article discussing prepaid tuition plans nationally. He also provided a copy of House Bill 181 and House Bill 361 which had been introduced by Representative Ford concerning PACT.

Agenda Item 7.

Chairman Boozer informed the Board that the current contract with Capell & Howard for legal services needed to be renewed for \$100,000. He explained that continuing legal services were needed to resolve any issues with the court settlement or pending litigation. A motion was made by General Hankins to execute a contract with Capell & Howard for legal services for \$100,000. The motion was seconded by Mr. Stubbs with unanimous approval.

Agenda Item 8.**Executive Session**

A motion was made by General Hankins and seconded by Dr. Meehan to enter into Executive Session to discuss pending litigation. Chairman Boozer discussed the Bylaws and procedures relating to Executive session. He announced that the meeting would resume after Executive Session which was expected to last approximately an hour. Ms. Emfinger called the roll with all members voting to go into Executive Session to discuss pending legal matters. Mr. Bryan then stated that Executive Session as requested met the requirements for the exception to the Open Meetings law.

Meeting Reconvened

At 2:20 the Board meeting resumed. A motion was made by General Hankins to authorize the Chairman to appoint a committee of the Board to evaluate a claim against Callan and others and report back to the Board at the May Board meeting. The motion was seconded by Dr. Meehan with unanimous approval.

All materials discussed are attached for reference.

There being no further business the meeting was adjourned at 2:25 p.m.

Chairman Young Boozer

Brenda Emfinger, Recording Secretary